

CITY OF KIRWIN

Kirwin, Kansas

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT

WATER UTILITY FUND

For the Year Ended December 31, 2014

MAPES & MILLER
Certified Public Accountants
Phillipsburg, Kansas 67661

CITY OF KIRWIN
Kirwin, Kansas

For the Year Ended December 31, 2014

City Council

Linda Roth
Larry Bedore
Stephanie Watts
Gary Dean Hammersmith
Judy Stockman

Brenda Loyd, Mayor

Susan Bedore	City Clerk
Debbie Robinson	City Treasurer

CITY OF KIRWIN
Kirwin, Kansas

For the Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Kirwin
Kirwin, Kansas 67644

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Water Utility Fund of the City of Kirwin, Kansas, a Municipality, as of and for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Mayor and City Council
Kirwin, Kansas
October 6, 2015
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the City of Kirwin, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 1, the financial statement presents only the Water Utility Fund of the City of Kirwin, Kansas and does not purport to, and does not present fairly the financial position of the City of Kirwin, Kansas, as of December 31, 2014, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. generally Accepted Accounting Principles” paragraph and the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Kirwin, Kansas as of December 31, 2014, or changes in financial position and cash flows thereof and for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the “Water Utility Fund” of the City of Kirwin, Kansas as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2014 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) of the Water Utility Fund. The summary of regulatory basis expenditures-actual and budget and individual fund schedule of regulatory basis receipts and expenditures-actual and budget, (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the 2014 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statement. The 2014 information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information

Mayor and City Council
Kirwin, Kansas
October 6, 2015
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directly to the underlying accounting and other records used to prepare the 2014 basic financial statement or to the 2014 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2014 basic financial statement of the Water Utility Fund, on the basis of accounting described in Note 1.

Respectfully submitted,

Mapes & Miller LLP
Certified Public Accountants

October 6, 2015
Phillipsburg, Kansas

CITY OF KIRWIN
Kirwin, Kansas

Statement 1

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
REGULATORY BASIS
For the Year Ended December 31, 2014

FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
Business Funds							
Water Utility Fund	\$ 1,381	\$ -	\$ 43,102	\$ 42,280	\$ 2,203	\$ 44	\$ 2,247
All Other City Funds							67,826
Total Financial Reporting Entity							\$ 70,073
Composition of Cash:							
Cash on Hand							\$ 150
Checking Account							2,934
Money Market Account							66,989
Total Financial Reporting Entity							\$ 70,073

The notes to the financial statement are an integral part of this statement.

CITY OF KIRWIN
Kirwin, Kansas

NOTES TO THE FINANCIAL STATEMENT
December 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Kirwin, Kansas, is a municipal corporation governed by an elected mayor and an elected five-member council. The accompanying statement reflects only the Water Utility Fund of the City of Kirwin, Kansas.

B. Regulatory Basis Fund Types

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The Water Utility Fund is the following regulatory basis fund type:

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e. business and internal service fund etc.)

C. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting, involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

2. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.

2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There is no budget amended as of December 31, 2014:

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital projects funds and trust funds.

Spending in funds which are not subject to the legal annual operating budget requirements is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance With Kansas Statutes

- A. K.S.A. 10-1117 requires the clerk to maintain a record of each funds' indebtedness and contracts creating a liability against the City. The records did not include the City's fund indebtedness and contracts for the year ended December 31, 2014, violating K.S.A. 10-1117.
- B. K.S.A. 10-1113 requires that no indebtedness be created for a fund in excess of available monies in that fund. The clerk does not prepare a monthly cash summary of unencumbered cash by fund. When performing our tests, cash basis violations were noted throughout the year.
- C. K.S.A. 10-1118 requires the treasurer to maintain records to show the amount of money in each fund throughout the year. A treasurer's report showing the balance in each fund is done at year-end but not throughout the year.
- D. K.S.A. 75-4302a requires elected officers, appointed public officers, and certain other employees to have written reports disclosing substantial interests on file with the county clerk. One of the city's council members did not have a substantial interest form on file with the county clerk.

- E. The City is not aware of any other non-compliance with Kansas statutes for the year ended December 31, 2014.

4. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining County, if such an institution has been designated as an official depository and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014.

At December 31, 2014, the City's carrying amount of deposits was \$70,073 and the bank balance was \$69,778. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$69,778 was covered by federal depository insurance.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

5. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

A. Other Post Employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

B. Other Employee Benefits

Vacation Pay

City employees, who have worked at least one year but less than ten years receive ten days of vacation per year. An employee who has worked at least ten years receives fifteen days paid vacation per year. Vacation time is added on the anniversary date and a maximum of 20 vacation days may be carried over from one anniversary date to the next. For the year ended December 31, 2014 accrued vacation pay is \$2,888. Vacation days are paid to the employees upon termination of employment.

Sick Pay

Each full time employee is credited with one sick day per month with a maximum accumulation of thirty days. Part time employees who work at least 100 hours per month earn six hours of sick leave per month with a maximum accumulation of sixteen days. Sick leave is not paid upon termination of employment.

Compensatory Pay

City employees who work over forty hours in any week may receive compensatory time off in lieu of pay for overtime hours worked. Compensatory time is calculated at one and one-half times the hours of overtime.

6. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The City has purchased commercial insurance for these potential risks.

During the year ended December 31, 2014, the City did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three years.

7. SUBSEQUENT EVENTS

Management has evaluated events subsequent to year-end through the date of this report, and does not believe any events through the date of this report have occurred, which effect the financial statement as presented.

8. LONG-TERM DEBT

Changes in long-term debt for the City for the year ended December 31, 2014, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance 1/1/2014	Additions	Reductions/ Payments	Ending Balance 12/31/2014	Interest/ Service Fees Paid
KDHE Loans									
Water Pollution Control	2.83%	10/11/2004	\$ 166,827	3/1/2030	\$ 142,208	\$ -	\$ 6,870	\$ 135,338	\$ 3,976
Public Water Supply	3.77%	9/11/2009	218,996	2/1/2031	145,848	-	6,017	139,831	5,443
Total KDHE Loans					288,056	-	12,887	275,169	9,419
Total Contractual Indebtedness					\$ 288,056	\$ -	\$ 12,887	\$ 275,169	\$ 9,419

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

Year	KDHE Loans	
	Principal	Interest
2015	\$ 13,312	\$ 8,994
2016	13,751	8,555
2017	14,205	8,101
2018	14,674	7,631
2019	15,159	7,147
2020-2024	83,663	27,866
2025-2029	98,497	13,032
2030-2031	21,908	704
	<u>\$ 275,169</u>	<u>\$ 82,030</u>

CITY OF KIRWIN, KANSAS
REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

CITY OF KIRWIN
Kirwin, Kansas

Schedule 1

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
For the Year Ended December 31, 2014

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Over (Under)
Business Fund					
Water Utility Fund	\$ 48,411	\$ -	\$ 48,411	\$ 42,280	\$ (6,131)

CITY OF KIRWIN
Kirwin, Kansas

Schedule 2-1

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year Ended December 31, 2014

WATER UTILITY FUND

	Actual	Budget	Variance Over (Under)
RECEIPTS			
Customer Charges	\$ 41,858	\$ 40,000	\$ 1,858
Water Plan	196	500	(304)
Other Receipts	548	500	48
Water Meter Deposits	500	500	-
Reconnect Fees	-	500	(500)
	<u>43,102</u>	<u>\$ 42,000</u>	<u>\$ 1,102</u>
EXPENDITURES			
Salaries & Wages	3,840	\$ 11,500	\$ (7,660)
Utilities	4,870	-	4,870
Insurance	7,081	7,000	81
Fees & Workshops	266	1,000	(734)
Repairs	1,787	-	1,787
Parts & Supplies	480	13,852	(13,372)
Water Protection Fee	317	-	317
Chlorine	1,536	941	595
Postage	12	-	12
Water Testing	269	-	269
Water Meter Refund	161	-	161
Loan Principal and Interest	11,459	11,500	(41)
RO Filters and Supplies	7,116	-	7,116
Audit	2,900	2,618	282
Connection Fee Refund	27	-	27
Miscellaneous Expenditures	159	-	159
	<u>42,280</u>	<u>\$ 48,411</u>	<u>\$ (6,131)</u>
Receipts Over (Under) Expenditures	822		
UNENCUMBERED CASH, January 1, 2014	<u>1,381</u>		
UNENCUMBERED CASH, December 31, 2014	<u>\$ 2,203</u>		